

CHAPTER 3

ISSUES FOR FURTHER CONSIDERATION

The Future of the Base Closure and Realignment Process

Under current law, this Report of the 1995 Defense Base Closure and Realignment Commission represents the final opportunity for the Defense Department to close or realign military installations in the United States under the expedited process established in the Defense Base Closure and Realignment Act of 1990. At the completion of the work of this Commission, the closure or realignment of military installations in the United States will be governed by section 2687 of Title 10, United States Code.

Under section 2687, the closure of any military installation in the United States with at least 300 civilian employees, or the realignment of any installation involving a reduction of more than 1,000 civilian employees or of more than 50 percent of the installation's civilian workforce, cannot take place until the Secretary of Defense carries out "an evaluation of the fiscal, local economic, budgetary, environmental, strategic, and operational consequences of such closure or realignment." If the Secretary concludes as a result of these evaluations that the closure or realignment should proceed, the Secretary must notify Congress of the proposed closure or realignment and wait 30 legislative, or 60 calendar, days before proceeding.

Experience has demonstrated that the process for closing or realigning bases contained in section 2687 is unworkable. During the decade following enactment of this statute in 1977, the Defense Department did not close or realign a single major military installation in the United States. Changing mission requirements and reductions in defense spending, however, placed growing pressures on both Congress and the Defense Department to deal with the problem of eliminating unnecessary and inefficient facilities and installations. These pressures ultimately led Congress and the Executive Branch to set aside the base closure process

contained in section 2687 and to create the 1988 Base Closure Commission and then to enact the Defense Base Closure and Realignment Act of 1990.

Despite four rounds of base closures and realignments, reductions in domestic infrastructure in the Defense Department have not kept pace with reductions in funding and force levels. In the last ten years, the defense budget has declined in real terms by almost 40 percent. Under current plans, defense spending will continue to decline in real terms each year through 1999. Overall, the Defense Department has reduced the size of the military services by 30 percent. By the end of this decade, the Army will have eliminated 45 percent of its divisions, the Air Force 44 percent of its tactical fighter wings, and the Navy 37 percent of its ships.

At the same time, the three previous closure rounds (1988, 1991 and 1993) have resulted in a decrease in our domestic base infrastructure of 15 percent. With the additional reductions proposed by this Commission, the cumulative reduction in military installations will be approximately 21 percent if accepted by the President and the Congress.

Secretary of Defense William Perry acknowledged to the Commission that the Defense Department will still have excess infrastructure after the 1995 round of closures and realignments. Secretary Perry suggested the need for an additional round of closures and realignments in 3 to 4 years, after the Defense Department has absorbed the effects of the closures and realignment from this and prior rounds.

The Chairman of the Joint Chiefs of Staff also testified to the Commission that excess capacity would remain in the Defense Department after this closure round. General Shalikashvili agreed with Secretary Perry on the need for additional base closing authority in the future, and said that opportunities remain in DOD to increase cross-servicing, particularly in the area of joint-use bases and training facilities.

In testimony during the Commission's final public hearing on June 14, 1995, Joshua Gotbaum, the Assistant Secretary of Defense for Economic Security, indicated that "Even after BRAC 95 has been implemented, we will continue to have excess infrastructure." Secretary Gotbaum also indicated that "Future base closure authority will be necessary." The Commission agrees with these statements.

The base closure process established in the Base Closure and Realignment Act of 1990 has worked well. As Army Chief of Staff Gordon Sullivan told the Commission, if the defense budget continues to decline and additional base closings are necessary, "the only way to do it is to have a BRAC commission."

The Defense Department will be implementing the closures and realignments of the 1995 and prior Commissions through the end of this decade. The requirement in the Defense Base Closure and Realignment Act that all closures be completed within 6 years means that the closures from the 1995 round will not be completed until 2001. For that reason, the Commission recommends that the Congress authorize another Base Closure Commission for the year 2001 similar to the 1991, 1993 and 1995 Commissions.

Between now and the time another Commission is authorized, all of the military services have expressed the need to be able to make changes to the decisions of this and prior Commissions. During the 1995 Commission process, 27 of the 146 recommendations submitted to the Commission by the Secretary of Defense were changes to prior Commission decisions. The 1991 and 1993 Commissions made changes to prior Commission decisions, and it is very likely that modifications or changes will be required to other Commission decisions in the future.

The Commission agrees with the Defense Department that the existing authority provided in section 2687 of Title 10 should be revised to allow modifications to past base closure Commission recommendations between now and the time that another base closure round is authorized. Any modifications under this process to previous closure decisions should be covered by the same special statutory and regulatory provisions addressing the disposal and reuse of military installations closed under the 1988 and 1990 base closure statutes.

The Defense Base Closure and Realignment Act of 1990 created a fair, open and objective process

through which large numbers of excess military installations in the United States have been or will be closed or realigned. Establishing another Base Closure and Realignment Commission in 2001 will give the military services time to complete the current closures in an orderly fashion, while ensuring that the Defense Department has the opportunity in the future to make further reductions in military installations in the United States.

Military Hospitals

The 1993 Defense Base Closure and Realignment Commission recommended that the Defense Department aggressively pursue military medical consolidation and restructuring, use civilian sector resources where doing so would be cost-effective, eliminate excess capacity in the direct care system, and maximize the utilization of remaining resources across the military services. The Medical Joint Cross-Service Group, created by DoD for the 1995 round of base closures, was a valuable first step towards accomplishing these goals. DoD is taking another important step in this direction with the creation of the Tricare program. This program, currently in its initial implementation phase, is designed to provide DoD with a systematic way to find the most cost effective means of delivering health care services, whether those means entail the use of direct care infrastructure, civilian providers, or some combination of the two.

The Joint Cross-Service Group developed a list of suggested hospital realignments that represents a good first step towards restructuring of the military medical system, although most of the Group's alternatives were not forwarded to the Commission as closure or realignment recommendations. DoD officials have stated that they are pursuing some of these actions outside of the base closure process. The Commission reviewed the Joint Cross-Service Group's recommendations for military medical facilities. During this review, the Commission received assurances from senior OSD and service officials that they will work together and aggressively pursue further consolidation and integration of military medical facilities, including restructuring actions across service lines. The Commission urges OSD and the military services to work together in this important effort.

This combination of hospital restructuring initiatives within and outside of the base closure process, however, should be viewed as the beginning point of a process and not the end. Even after the

implementation of the recommendations of this Commission and the actions the services are taking outside of the base closure process, many opportunities will remain for consolidation of resources across service lines and with civilian sector medical resources.

DoD should aggressively seek out and pursue these opportunities. Appropriately targeted reductions in direct care capacity, particularly inpatient bed capacity, would likely enhance both the cost and mission effectiveness of the military medical system. Cost effectiveness would be enhanced when DoD provides directly only those services that would be more costly to purchase from the civilian health care system. Mission effectiveness would be enhanced when infrastructure reductions permit the DoD to focus its direct care assets in the most mission critical areas directly related to medical care.

A careful assessment of requirements and available civilian resources is particularly important for the small military hospitals located in areas with an over-capacity of civilian medical resources. Realignment of these hospitals to clinics or sub-acute care inpatient facilities is likely to be cost effective without eroding the department's ability to accomplish either the peacetime or wartime missions of the military health services system.

Finally, no efforts to address DoD medical infrastructure issues, no matter how well designed, will be able to accomplish meaningful, appropriate reductions in the size of the military medical system unless DoD reaches a consensus on the readiness requirement of that system. Without consensus about the size of the medical system needed to support readiness requirements, significant changes to military medical infrastructure will be difficult to achieve. The Defense Department needs to reach a clear understanding of its wartime medical requirements and how it will meet them.

Privatization of DoD Industrial and Commercial Activities

During the Commission's review of Defense Department recommendations to close the maintenance functions at Louisville and Indianapolis, the local communities presented proposals that would allow a local redevelopment authority to obtain ownership of the closed depot facilities. These facilities would then be offered to private companies or employee groups for use in proposing bids on

work previously performed at these installations. Acceptance of these proposals is beyond the Commission's authority to direct, but they appear to be a positive approach to solving the Navy's excess infrastructure problem.

The former government employees would provide a skilled labor pool, and, if successful, the local communities could transition the excess infrastructure into industrial parks or other businesses. The Commission strongly urges innovative approaches such as these be developed in partnership with local communities as a way to promote use of excess infrastructure and also reduce costs for required functions.

It would be possible for the communities to acquire the facilities through the reuse process, but only an active partnership with DoD can resolve the issues of workload, staff carryover, and technology transfer which could make such enterprises both viable and beneficial to the community, employees, and DoD.

While this initiative is in line with the privatization goals cited by the recent Commission on Roles and Missions of the Armed Forces, it goes one step farther by including DoD and the local community as active participants in the process. By creating truly cooperative ventures, rather than simply divesting an operation to the private sector, DoD can ensure that its requirements are met directly, while enjoying the efficiency of private operation.

The Commission believes reducing infrastructure by expanding privatization to other DoD industrial and commercial activities will reduce the cost of maintaining and operating a ready military force. Many industrial and commercial activities now performed by military and civilian personnel throughout the military services could be operated by the private sector without any loss of military capability. Privatization of these functions would reduce operating costs, eliminate excess infrastructure, and allow uniformed personnel to focus on skills and activities directly related to their military missions.

The Commission received testimony indicating that the current statutory requirement that at least 60 percent of the depot maintenance workload in each military service must be done in DoD depots may be an impediment to further privatization. The Commission urges Congress and the Defense Department to review this matter carefully.

Cross-Servicing Within the Department of Defense

In previous BRAC cycles, the analyses and development of recommendations for closure and realignment actions were conducted solely within the military services. In preparation for the 1995 cycle, the Deputy Secretary of Defense established five Joint Cross-Service Groups to examine the following functional areas: medical; undergraduate pilot training; test and evaluation activities; research and development laboratories; and depot maintenance. Each group was chaired by a senior executive from the Office of the Secretary of Defense and was composed of members from each of the military services. Each of the groups established useful policy objectives to downsize DoD infrastructure and encourage cross-servicing of workload. The groups also established data call procedures which resulted in data that were comparable between the military services.

Despite the attempts through the BRAC 1995 preparation process, few cross-servicing recommendations were included in the Secretary's base closure recommendations to the Commission. The Joint Cross-Service Groups produced a number of cross-servicing recommendations. The Depot Maintenance Joint Cross-Service Group, for example, developed two sets of base closure alternatives. Both alternatives suggested eight maintenance depots for closure and both contained significant cross-servicing opportunities. However, rather than transmitting their suggestions to the Secretary of Defense for inclusion in the DoD BRAC recommendations, the Joint Cross-Service Groups submitted their suggestions to the military departments for consideration. The military departments did not include most of the Joint Cross-Service Groups suggestions in their BRAC recommendations to the Secretary of Defense.

The Commission recommends the Department of Defense include efforts to establish cross-servicing during any future base closure rounds. The Joint Cross-Service Groups should be responsible for assessing the workload component and the cost and savings aspects of their recommendations. For that reason, these Groups and not the military services should prepare COBRA analyses to reflect the impact of their recommendations. The Group leaders should propose cross-servicing recommendations directly to the Secretary of Defense for review and consideration early in the process of

developing the Department's proposals.

Military Family Housing

In its recommendations to the Commission, the Army recommended the disposal of family housing in many high-cost and remote areas. The justification for these recommendations was that sufficient commercial housing is available on the local economy using Basic Allowance for Quarters and Variable Housing Allowance. The Commission viewed this to be an erosion of quality of life for the soldier and his family and a transfer of DoD's shortfall in funding for family housing operations and maintenance to a significant out-of-pocket expense to the soldier.

The Commission encourages DoD to expedite its effort to draft, and the Congress to enact, legislation that will allow the private sector to acquire and revitalize military family housing for the Department of Defense.

Engineering Field Activity (EFA) West, San Bruno, CA

The Navy's Engineering Field Activity (EFA) West, in San Bruno, California was added for consideration by the Commission as a potential closure or realignment. Although the Commission did not take any action to realign or close this activity, the Commission is concerned that the activity occupies a compound much larger than it needs which is expensive to operate and maintain. This property is in a location well-suited for more intensive commercial development.

In the past, the Navy held preliminary discussions with the city of San Bruno about an exchange of property for the construction and conveyance to the federal government of a building which would reflect the value of any parcel acquired by the city. If the Navy retains the property in its current configuration, it will continue to pay for unnecessary operating costs, and it will forfeit the opportunity to locate EFA West, and potentially other federal tenants, in modern office space at minimal cost. The city will also lose the opportunity to obtain the economic benefit from the appropriate development of property in their community. The Commission strongly recommends that the Navy pursue the opportunity to maximize the use of the EFA West compound for the benefit of the Navy and the local community.

While this discussion refers to one specific base, there may be many others that could be more effectively used if creative solutions are investigated by the services in consultation with the local communities. The Commission encourages the use of innovative approaches to the effective utilization of Department of Defense real estate. Implementation of solutions such as the one for EFA West can create significant infrastructure savings without base closure actions.

Return on Investment

Like DoD, the Commission used return on investment as one of the eight criteria in making decisions regarding the realignment or closure of an installation. Over the past three rounds, several issues regarding the calculation of return on investment surfaced during the process. This round was no exception. The most significant issues to surface during this round follow:

- First, even after four rounds, there still existed a significant amount of difference among the services regarding how they conducted their Cost of Base Realignment Actions (COBRA) model runs.
- Second, the exclusion of environmental cleanup costs and locality pay for civilian employees continued to be a point of contention with many communities.
- Third, the exclusion in the calculations of some relevant costs and savings tended to obscure the actual economic benefit to the DoD.
- Finally, the largest area of concern was the policy of using a yearly revised "cost of money" rate as the discount rate used to calculate net present value.

Each service or defense agency was responsible for conducting its own COBRA runs. This policy permitted significant differences among the services in how they calculated return on investment. Even though the GAO and service Inspector Generals audited this process, several differences in the methods to generate COBRA runs were not captured through these audits. For instance, the Navy, in several of their COBRA runs, excluded the cost of mission personnel assigned to an installation who provide disassembly, packing, unpacking, reinstallation and recalibration of specialized equipment, while the other services and agencies reported a one-time moving cost for these activities. This allowed the Navy to avoid showing moving costs associated with a realignment or closure action

that sometimes were significant. Although the other services generally did not, the Air Force sometimes included a Base Conversion Agency cost even though COBRA automatically calculated a program planning cost to manage the base realignment or closure activity. Finally, the Army did not include many of the costs included by the other services because they conducted COBRA runs from a macro viewpoint. All of these and other differences led to different costs and savings estimates.

A second area of concern was the treatment of environmental cleanup costs and locality pay. The DoD policy excluded both of these costs. This policy was vigorously challenged by communities. Some communities asserted that any closure or realignment action would likely result in a change in the overall cost to cleanup an installation, either by accelerating the cleanup or conducting the cleanup with old technologies. DoD policy had been able to virtually ignore the impact on environmental restoration costs as a result of the realignment or closure action. While this may have been a valid approach, the policy should be reviewed for any future base closure efforts. The second cost ignored by DoD was the change in locality pay for civilian employees. The COBRA captured Variable Housing Allowance for military personnel and local construction cost differences in a local "Area Cost Factor." It was therefore inconsistent not to consider civilian locality pay differences. This concern was especially relevant since locality pay is based on federal law and was a recognizable cost to DoD as a result of an action which realigned personnel from a low-cost area with no locality pay to one with a high cost of living.

The next area of concern was the number of legitimate costs and savings which were not included in the COBRA calculations. One of these was the savings that occurs when greater efficiency is achieved by consolidating functions into fewer locations. Even though these savings were difficult to estimate, it was a legitimate savings due to the closure process. Another legitimate and sometimes significant savings was the avoidance of future capital investment that occurs when a large installation is closed. Most real property has to be replaced every forty to fifty years. Therefore, a portion of a base's infrastructure which needs to be replaced each year was not captured in military construction budgets or real property maintenance accounts. These very real and significant savings were missed in the current execution of

COBRA. Also, there were costs for projects that were delayed due to a move or realignment that were not captured in the COBRA model. For instance, in this round, the Navy sometimes put a program on hold while a move was taking place. Even though this might incur a significant cost to DoD, it was not included in the COBRA. Finally, DoD should make every attempt to capture all costs associated with the base closure process. Costs such as increased CHAMPUS costs, Medicare impacts, and active duty/reserve forces cost sharing arrangements have historically been omitted from COBRA considerations.

The last major area of concern involved the use of an annually revised cost of money as the discount rate. The discount rate was used to calculate the present worth of future savings. These savings were discounted for the decreased value of money in the future. In 1991, the discount rate was 10 percent. In 1993, DoD used a 7 percent rate and in 1995, a 2.75 percent rate was used. These different rates caused a large difference in the net present value of future savings. Using a 10 percent rate decreased the savings to a third of what they would be if a discount rate of 2.75 percent were used. Instead of using a rate which can vary greatly from year-to-year, a reasonable estimate of 5 to 7 percent should be used and not changed over time. The General Accounting Office recommended the use of a 4.85 percent discount rate for the 1995 round. Using the same discount rate is the only way to compare one round of BRAC with another round.

Analysis of Economic Impact

Economic analysis of bases identified for closures and realignments in the 1995 round improved significantly from prior base closure rounds. Economic data provided to the Commission from the Joint Cross-Service Group (JCSG) on Economic Impact provided a coherent and comprehensive analytic approach for estimating the economic impact of military base closures. Similarly, the 1995 Defense Base Closure and Realignment Commission's economic impact computer software was far superior to economic capabilities available to past Commissions. Despite the ongoing improvements in calculating the economic impact of a base closure, there were a number of areas that could be improved.

The primary focus of the JCSG economic impact software was to determine the number of military, civilian, and private contractor personnel eliminated or reassigned from a defense establishment and to determine the indirect job loss resulting from base closures and realignments. Personnel may be relocated on paper among several different duty stations before their final destinations are determined. Personnel reassigned from their original station to a new station were not efficiently tracked by the economic impact software. This deficiency resulted in significant reconciliation efforts by the Commission's economic and Cost of Base Realignment Actions (COBRA) analysts.

A modification to the economic analysis software to automatically account for reassigned military, civilian, and private contractor personnel from each origin to all destinations would be a significant improvement to the current software. Also, the software should be able to account for the changes in the number of military, civilian, and private contractors arriving at each destination from all origins. These modifications would reduce the potential for errors in cost and economic analysis.

The DoD Joint Cross-Service Group on Economic Impact decided that cumulative economic impact would include prior BRAC actions if personnel losses occurred in 1994 or later. The Group decided that historical government economic trend data would capture the actual economic impacts of BRAC actions prior to 1994. Therefore, the 1995 Commission economic database did not include any closure or realignment personnel actions completed prior to 1994. The 1995 Commission concluded that this approach did not fully accommodate the concerns of the communities affected. To improve the database as a tool for computing cumulative economic impact, all prior base closure actions in an economic area should be included in the grand totals of the cumulative economic impact calculations.

A job multiplier obtained from government economic source material was used in calculations to determine the indirect job loss resulting from a base closure or realignment. The Commission's review of multipliers found that a number of the services' multipliers appeared lower than those independently computed by the Commission. Ongoing discussions with the Joint Cross-Service Groups clarified multiplier differences. To reduce

conflicting economic analysis based on multipliers, the military services should provide official documentation to the Commission explaining any changes in multipliers used to calculate indirect job loss.

Existing unemployment in an area that might be affected by a BRAC action was important when calculating the total economic impact of a potential base closure or realignment. One method to assess the total potential unemployment rate is to combine the current unemployment rate with the impact computed for BRAC, making sure the employment base definition is consistent, i.e., does or does not include military personnel between each economic area analyzed.

The Joint Cross-Service Group used the Bureau of Economic Analysis (BEA) data for an employment data base by economic area. The Commission approved the Department of Defense's use of BEA data which represented a change from relying solely on the Bureau of Labor Statistics (BLS) data during previous base closure rounds. The Commission agreed to use BEA, because unlike BLS, the data found in BEA included military personnel. However, historical information on employment and rates of unemployment in the economic impact database were published by BLS. Consequently, the use of two data sources on employment led to confusion. The Commission recommends that separate reports be generated for economic impacts using BEA data and for the historical trends using BLS data.

The Commission also found that the use of COBRA personnel summary sheets to alter the economic database worksheets led to possible errors in economic calculations when personnel changes were within the same economic area or when the economic impact was computed from a "redirect" action. These errors could be eliminated if the services provided the Commission separate economic impact data base revisions in the same manner as they provide separate COBRA revisions.